

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6300**

**BILL NUMBER:** HB 1178

**NOTE PREPARED:** Feb 9, 2009

**BILL AMENDED:** Feb 9, 2009

**SUBJECT:** Military Pension Income Tax Deduction.

**FIRST AUTHOR:** Rep. Blanton

**FIRST SPONSOR:**

**BILL STATUS:** 2<sup>nd</sup> Reading - 1<sup>st</sup> House

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill removes the minimum age of 60 requirement for the military pension benefit income tax deduction. It also phases in an increase in the amount of the deduction from \$5,000 to \$7,000.

**Effective Date:** January 1, 2009 (retroactive).

**Explanation of State Expenditures:** (Revised) The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to reflect both the increase in the maximum deduction amount and the removal of the minimum age requirement for the deduction of military retirement and survivors benefits. The Department's current level of resources should be sufficient to implement this change.

**Explanation of State Revenues:** (Revised) *Summary* - This bill would reduce Adjusted Gross Income (AGI) Tax liabilities of individuals who receive military service income, including retirement or survivor's benefits. The additional revenue loss due to the bill could potentially total \$2.0 M in FY 2010, \$4.0 M in FY 2011, and \$6.1 M in FY 2012. Thereafter, the revenue loss could increase by about 2% to 2.5% per year. All revenue from the AGI Tax on individuals is deposited in the state General Fund.

The bill makes the following two changes:

- (1) Increases the maximum deduction for military service income, including retirement and survivors benefits, from \$5,000 to \$6,000 in tax year 2010, and to \$7,000 in tax year 2011 and after.
- (2) Extends the deduction for military retirement and survivors benefits to military retirees and survivors

under age 60 beginning in tax year 2009.

**Background Information** - Current statute provides a deduction for military service income, including military retirement and survivors benefits. The maximum deduction is \$5,000, with a full deduction for active duty pay to National Guard and Reserve personnel who are mobilized. The deduction applies to military retirement income and survivors benefits received by a person who is 60 years old or older. In 2006, 38,440 taxpayers claimed deductions totaling \$76.2 M for eligible military income. The maximum deduction at that time was \$2,000. (Note: P.L. 144-2007 increased the maximum deduction from \$2,000 to \$5,000, and provided a full deduction for active duty pay to National Guard and Reserve personnel who are mobilized, effective beginning in tax year 2008.).

Because the estimates provided above are based upon average pension or survivors benefits, the actual revenue loss may be less than projected to the extent that some retirees or survivors receive less than \$5,000 annually.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) Because the increase in the maximum deduction amount and removal of the age requirement for the retirement and survivors deduction and would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties with local option income taxes.

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